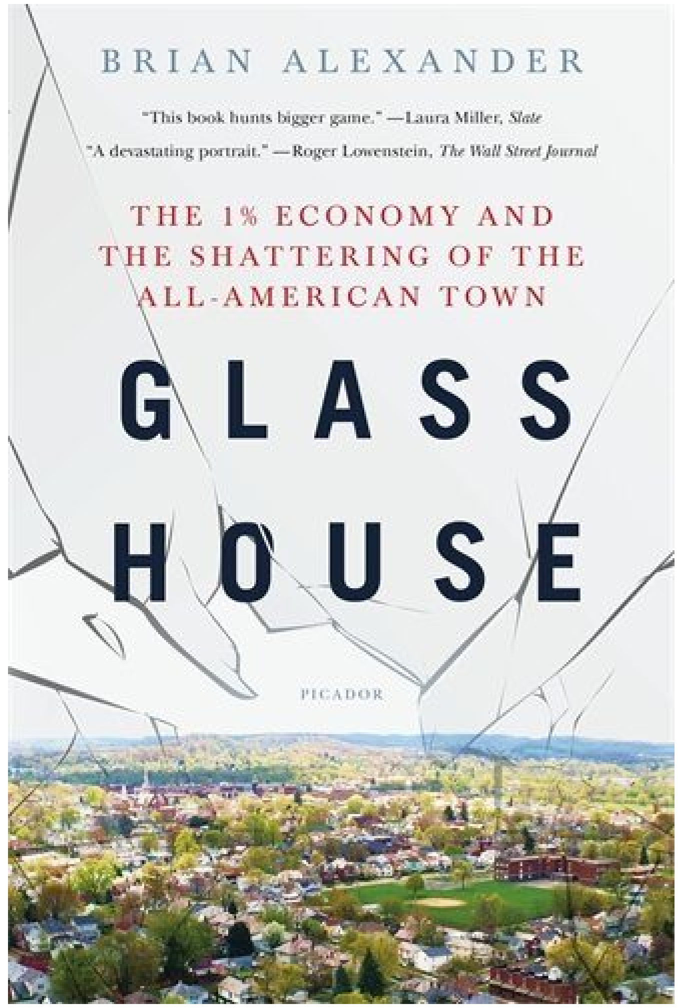
WHATEVER HAPPENED TO AMERICAN INDUSTRY?

Posted on June 1, 2021 by Charles

Private equity has made me rich beyond the dreams of avarice. Yet private equity can be, as this book shows, a tool of the devil, a corrosive and destructive force in American life. Still, I do not think the story is as simple as Brian Alexander, the author of *Glass House*, would have it. The town in which he grew up, and which he profiles here—Lancaster, Ohio—has fallen far from its glory days, as have hundreds of similar towns across America. But the responsibility for that lies not just with the shady private equity companies that looted its largest employer, glass manufacturer Anchor Hocking, or with other elements of our rotten ruling class. It also lies with all of us, who bear more than some responsibility for the degradation of our towns, and of ourselves.

Although there are variations, in general "private equity" refers to a certain type of investment firm. Those who manage the firm collect money from investors seeking high returns, and use that money, along with copious additional borrowed money, to buy private companies. They then seek to resell those companies at a higher value within a few years, thereby returning money to investors, and more to themselves, while extracting money along the way. If done competently, those who manage private equity firms can become extremely rich, and they never become poor, since they are not risking their own money. The risks are instead borne by the passive investors, the banks who lend money, and by the companies they buy. Think of those, in most cases, as a goose force-fed to massively increase its liver size. Time is short, and it rarely ends well for the goose.



In my past life, I was a mergers-and-acquisitions lawyer; the nature of that business, buying and selling companies, often involves private equity firms. I also studied private equity, and related fields, a great deal in business school, which I attended after being a lawyer. For most of 2020, as I worked toward selling my business, I interacted with a number of private equity companies, who constitute the buyers of most businesses today. This sale process showed, although I already knew them, the differences among private equity firms. As with any firm, each has a personality, and while they are subject to economic incentives, much of their behavior is actually driven by personality. For example, I had signed a letter of intent (an agreement to agree) to sell my company to one private equity company last July. Their personality was a common one for private equity—slick, overconfident, far less smart than they thought, and people I wouldn't trust to buy me a sandwich, if I were relying on them to bring me the change. Although they were the initial high bidder, it was in their nature, again as is common with private equity companies, to chisel. Failing to read my personality and thinking that I would be desperate to keep a bird in the hand, and so be willing to give up some money for their benefit, they tried to lower the price before the transaction closed. It took me thirty seconds to kill the deal, and I never spoke to them again.

But other firms have different personalities. Soon enough, a bidder that had earlier dropped out, because of the impact of the Wuhan Plague on other companies it owned, came back to the table, offering an even higher price, and quickly closed the deal. This private equity company represented not many investors seeking returns in the traditional way, but family members of one wealthy family (with politics very opposed to mine). This firm's personality, and all its representatives, were always honest and aboveboard in every way and they were a pleasure to deal with. Moreover, they have successfully continued to run and grow my company, with what appears to be a long-term focus.

Alexander would say that despite differences in personality, private equity firms are all subject to similar incentives—to pump up the value to a third party of an entity they buy, by minimizing expenses and maximizing EBITDA (an indirect measure of cash generated by the company), and then to sell it to someone who will pay them more than they paid for it. And that is true enough. It is equally true that private equity firms extract money from owned companies prior to sale, through fees and special dividends. They often claim that this is compensation for providing guidance, a bogus claim, since except in rare instances those who work at private equity firms have no idea how to run a business (although often those who run the business also have no idea how to run a business), because financial engineering is a completely different skill set from running a business. Hubris is the defining characteristic of private equity, but nemesis never arrives, because of the political power of the financial engineering class.

One might legitimately ask, given that private equity has so many cretins in it, why did I sell to private equity? Because I wanted the money, of course. It so happened that the buyer was the bidder most aligned with all stakeholder interests, not just my interests, although the shift from a firm run by a single man to one run by a larger entity necessarily results in some change, disadvantaging some stakeholders and advantaging others. To be fair to me (something I never fail to do), I should mention that I distributed around ten million dollars to my employees, for although successful entrepreneurship almost always centers on the work of one indispensable man, he cannot do it without others, and the laborer is worthy of his hire. But I would have sold to a greaseball private equity company if that was what got me the most money, if I am being honest. The official mission statement of my company was

“The purpose of this company is to put sweet cash in the pocket of Charles Haywood,” and so it turned out. That’s all there is to it. I’m avaricious, not so much for cash as the marker of success, but for what cash will let me do. Perhaps this merely proves I am part of the rot of modern America.

So, of *Glass House*. As with many books in the genre that combines social analysis with business analysis, the book is somewhat confusing, because it hops around in time and among people. But the basic story is relatively simple. Once upon a time, glass manufacture (not of windows, but of articles) built the modern version of the town of Lancaster, which is some distance southeast of Columbus. The city has plentiful supplies of natural gas, which made it, starting in the late nineteenth century, an ideal place for glass manufacture, an energy-intensive process. The biggest of these glass manufacturers was, and the only one left in or near Lancaster is, Anchor Hocking. Through the lens of Anchor Hocking, Alexander concisely explains glass manufacture, a heavy industrial process requiring hard and dangerous work. This Lancaster was a successful town, and in many ways the image of America in the 1950s, a decade that we are told now was awful, but which was in reality an awesome decade, and the last decade before America hurtled into the pit. Any person in Lancaster could, with a modicum of hard work, have a more than decent life. He wouldn’t be rich (nobody was truly rich in Lancaster, nor were there sharp class distinctions—Anchor Hocking executives drank at the same bars as men who worked the machines), but he would be able to raise a successful family and have a successful life, as success was once defined.

As with many companies, in the 1970s Anchor Hocking ran into trouble. Some of that was the sclerosis that affected many American companies of the era, the result of decades of little competition. In 1982, Carl Icahn bought a block of stock in Anchor Hocking and threatened that he would try to replace management, that is, directors and officers. What he wanted was “greenmail”—to have management repurchase his shares at an above-market price, a practice that is bizarrely not illegal (though a special tax is now imposed on such payments, making them less common today). He got what he wanted, starting a cycle of Anchor Hocking being led around, like a bull with a ring through its nose, by one “investment” firm after another.

The Icahn episode demonstrates a key underlying structural problem with all corporate entities—what is called the “agency problem,” the separation between ownership and control. Those who made the decisions for Anchor Hocking, the officers and directors, were not significant owners, or owners at all in many cases. That means they made decisions with other people’s money, and they could benefit themselves, here by keeping their jobs, at the expense of the owners, the stockholders. Managers say they act (as they are legally required) to benefit the stockholders, not to keep their jobs and perks. But that is at best a half-truth; rare is the manager devoid of self-interest. The agency problem is an eternal challenge for any firm, but in a firm that needs reform, it ensures that reform is unlikely to come except under extreme pressure—often in the form of being bought by private equity. Whatever may be the deficiencies of private equity, as an owner private equity firms take direct, immediate action to benefit the owner, largely removing the agency problem. This means that managers who are fat, lazy, and stupid stay in charge until private equity forces changes; this all-or-nothing approach tends to lead to undesirable outcomes for those who work for or rely on the continued stable existence of a company.

Alexander mostly ignores it, but it is entirely true that American industry in the 1970s and 1980s had fallen behind and needed reform, living large off two decades of riding high and made resistant to pressure by the ever-increasing pie allowing everyone to do well. It is no surprise this led to complacence; that reaction is simply the default for most human creations, whether firms or governments. With the right leadership, complacence can sometimes be avoided, but that leadership is extremely rare. Such sclerosis was before extreme globalization and the ideology of free trade wiped out our industrial capacity, though lean and hungry foreign competitors already were starting to enforce some discipline in the 1970s. (The classic example of this dynamic was the auto industry, whose lunch was eaten by the Japanese.) Anchor Hocking, however, wasn't much subject to foreign competition (it's expensive to ship glass across the ocean, although Anchor Hocking did sell overseas, and some foreign glass, especially Mexican, competes in America), and had enormous amounts of difficult-to-replicate tacit knowledge (something Matthew B. Crawford writes very well about). Thus, while it no doubt had become somewhat inefficient, it continued to operate adequately, and it spent money on necessary capital improvements while offering good wages and benefits to workers and being closely tied to the continued success of Lancaster. It's hard to tell from this book, but there's no real indication that Anchor Hocking in the 1980s needed to do much differently than it already was. Icahn was looking for a quick buck, not to improve the company.

Coincident with rising sclerosis among American firms, however, was the rise of libertarian economic ideas, epitomized by Milton Friedman, with his idea that the sole purpose of any firm was to make a profit for its stockholders. This was a rejection of the stakeholder view of corporate decision making, in which the corporation is run for the benefit of all those with an interest in its success, in particular the employees (though this concept is too often stretched far from real stakeholders). I used to have quite a bit of sympathy with Friedman's idea, but it's become clear that such an imbalanced focus is one of the drivers of American economic decay. On the other hand, it's also true that the agency problem is real, that managers very commonly line their own pockets and protect their own jobs and perks while lying that they are doing so for all the stakeholders. And more recently, a great many managers have destroyed enormous firm value for all stakeholders by using their firms to virtue signal with leftist agitation, another example of the agency problem, and the most pernicious one yet. The question, again, is where and how to strike the balance in deciding for whose benefit a firm should be operated.

Certainly, we don't need total laissez faire. The bizarre idea that many supposed conservatives advance, that corporations should be free to do what they want, even monopolistic ones that use their massive power to aggressively advance left-wing goals, is just that—bizarre. It ignores that corporations, which are creatures of the state, are told all the time what they can and cannot do—but only to advance left-wing goals, like forcing small businesses to bake celebration cakes for homosexual "weddings." The sooner this idea of keeping hands off corporate entities dies, the better. When I am in charge, corporations will work to advance, or at least not hinder, the societal goals of Foundationalism, or they will be dissolved, and regardless of that, no giant corporations at all will be allowed, following Tim Wu's neo-Brandeisianism.

As for Anchor Hocking, the next four decades of its history were one of decline combined with endless financial engineering machinations. More investments by raiders who demanded short-term returns at the expense of all other stakeholders; spinoffs that lined the pockets of a few; declining quality and declining sales; cutting investment in capital improvement in an attempt to raise cash flow; and all the usual common events in the many American industries choked by financial engineering. The long-standing ties of the company's managers to the town frayed and then severed. An endless churn of new owners and managers became the new norm, in the corrosive manner modern corporate America endorses. The union was cowed and forced to repeatedly retrench wages and benefits, threatened with shutdowns otherwise. Public money was extracted by one owner after another; school funding was cut in order to meet the demands of voracious new owners. The left-wing critics of the "greed is good" attitude, which tried to justify dishonesty and the quick buck, were, it turns out, correct.

Notably, one short-term owner of the company was Cerberus Capital Management, of which one Stephen Feinberg, a top economic advisor to Donald Trump, is CEO. This simple fact explains a lot about how Trump's term in office went. Feinberg is laughably described in his Wikipedia profile as a "businessman"; nothing could be further from the truth. He's a parasitical extractor of value created by others. As Robert Nisbet said, rootless men always betray.

One result of this ruination wrought by financial engineering was that working at Anchor Hocking, which used to be the goal of most young people in the town, became a low-prestige option, where nobody ambitious wanted to work given that upward opportunities were few and the company might shut down at any time. By when this book was written, in 2016, Anchor Hocking was still around, shrunken (as it is to this day, though it seems to be a big seller of bottles for premium liquor), but sadly diminished as a pillar of Lancaster, which itself was, not coincidentally, also sadly diminished. Alexander weaves, among the business discussion, profiles of local residents, not connected to the glass industry, mostly drug addicts. There's a little too much of this, which becomes repetitive. All you need to know is that like most towns, especially in this area of the country, drug use is ubiquitous and hugely destructive, and a very large percentage of the population cycles in and out of the criminal justice system. The details don't really matter; what matters is that this is indicative of a blasted and destroyed society. Did that have to happen? Well, that's the question, isn't it?

The root symptom of Lancaster-style societal destruction is the alienation and isolation that characterizes most of America today, even in economically-thriving areas. From that follow numerous secondary harms. Alienation led to the destruction of the virtues that used to be the norm, and which were enforced by the community. Chief among those disappeared virtues were hard work and thrift; as Alexander says, now "Modesty was out; acquisitiveness was in." As everywhere, consumerism, usually of cheap Chinese crap, substituted for community, aided by easy credit and easy bankruptcy (and more recently by our government printing money). (If you need more proof of the attitude this creates, I passed a bus stop bench the other day, printed with an advertisement, "Bankruptcy By Phone!") As the community corroded, those on the edges fell out, creating new edges, that also fell out. As a result, it became increasingly difficult for businesses to find good workers, further fueling decline. Numerous other indicia of decay, such as illegitimacy, soared. The result is that Lancaster today is a drug-addled and poverty-stricken town, where most people who work are employed in health care, an industry pumped up by the vicious cycle of poor health leading to yet more social decay leading to more poor health, and where the only people in Lancaster with good jobs are those who work in Columbus and commute, who have no time to participate in the community.

Many locals blame government handouts for the decay, and there is no doubt much truth in that—as Chris Arnade's Dignity reveals, government handouts are often what allow many people to wallow in degradation. If they disappeared, we'd have a lot less degradation. But even if there were no payments, and if Anchor Hocking and other employers paid the inflation-adjusted wages and benefits they paid in the 1960s, it's not clear it would be enough for people in Lancaster to lead the lives our consumerist culture demands they live. The deeper problem is societal expectations and changed structures. The most important changed structure is sex roles—a significant degree of our national fracture of community is the direct result of the poison of Betty Friedan and her ilk, and a huge percentage of alienation and atomization comes from mothers being employed outside the home. Aggressively stigmatizing such work, and ensuring that no subsidies go to encourage it, rather the reverse, would go far toward restoring a decent American society, though you'd need to do a lot more than just that to actually reverse decay, or more accurately, forge a new society.

It's somewhat sad that a core of older residents keeps hoping to renew Lancaster, and trying to do so, and keeps failing. It's essentially impossible to renew a town without an economic engine and with a broken society. As Alexander notes at one point, a town that works is "governed by a set of long-held rules and customs." In a world that celebrates emancipation and autonomic individualism, this evanesces, and cannot be recaptured. I found it particularly interesting how Alexander profiles one young man, Brian Gossett, a fourth-generation employee of Anchor Hocking. Gossett rejects "the System," by which he means the complex of pernicious societal drivers that creates dead-end lives for young people like him. He's employed (though he quits Anchor Hocking), and he's not a drug user, but he drifts, atomized within an atomizing society. This is the kind of young man who in another time would have been guided by his elders, and welcomed less autonomy and more community, but now is cast adrift, offered nothing but temptations. Yet, exemplifying the spirit that much of America fails to understand, that of J. D. Vance's Hillbilly Elegy (also set in Ohio), he and many others want to stay in Lancaster, which is their home. He just doesn't see a path forward. He's been betrayed by our ruling class, which runs the System. The solution, which he can't see but he would no doubt endorse under the right circumstances, is to bring down the System.

You can't go back. So what does that imply? Saying you can't go back is not the same thing as insisting that all the nightmarish social consequences of financial engineering are simply natural, the result of "being part of a modern economy." Still, the type of sclerosis that affected American industry in the 1970s and 1980s is very real and largely inevitable; although Joseph Schumpeter's idea of creative destruction is overstated and overvalued, it has a grain of truth, in that change disciplines. The problem, I think, is that we got the wrong type of change, benefiting at the expense of most of America a thin slice of Americans (the 1% of the subtitle of *Glass House*), as well as various foreigners.

How to address this, and try to move ourselves to a sounder, more broadly socially beneficial, industrial economy, that still allows America to move forward to a new dawn (assuming we also solve all the other problems we have, a big assumption)? First, we should start by breaking the political power of the financial engineers—not just private equity, but hedge funds, big banks, and a vast host of other parasites who have manipulated our entire society to their benefit, on every front from taxes to regulation. Half measures won't do; I'd not just tax the carried interest at ordinary income rates, but implement confiscatory taxation on financial engineering profits, looking backward (separately from my intent to wholly confiscate the fortune of any wealthy person who has funded destructive left-wing programs, such as Bill Gates or Steve Jobs's widow; the assets of all left-wing foundations, such as the Ford Foundation; and all college endowments above a de minimis amount). We also need a robust antitrust regime that allows no single company, or companies under direct or indirect common ownership, to control more than five percent of any given market, whether internet search or breakfast cereal, no matter the source of that control.

By itself this won't be enough. The American economy produces less and less of value, but this truth is largely concealed by financial chicanery. We don't need more cheap crap from abroad to feed the destructive consumerist mill, and we don't need the fictitious increases in GDP that result from everyone buying more cheap crap, or for that matter, expensive crap, every year. Thus, second, we should massively increase tariffs on any goods coming from low-wage countries, or from China, regardless of its wages. NAFTA and all similar agreements should be voided. It's just dumb that we allow our manufacturing to be stripped from the country, relying on the continued goodwill of our enemies, on that globalism will be stable and wonderful forever. And cheap is rarely better, even if we have been propagandized into that belief. For example, the other day I needed to buy a drill chuck for a metal mill. The gold standard at one time was Jacobs chucks; but now, having been bought by Danaher, a conglomerate driven by financial engineering, they are made in China, and their quality has plummeted. Or, to take another example, a few days ago I tried to purchase a second Ursa garden wagon, for a long time the pinnacle of garden wagons. But I was told they don't sell wagons anymore, just parts; Gorilla Carts copied their designs and sells Chinese knockoffs. So when China cuts us off, we won't have any chucks or wagons at all. That, multiplied across a thousand industries, is a big problem. We can kill both consumerism and our dependency by simply increasing tariffs.

Yes, increasing tariffs would likely diminish American exports and cause short-term economic pain; that's not necessarily desirable, but it would be desirable if the crisis, following the immortal words of Rahm Emanuel, allowed us to make other required social changes, such as eliminate the BS jobs that are most of what our professional-managerial elite does; eliminate the massive racial grift industry of diversity commissars and the like; and end the idea that it is desirable for mothers to work outside the home. A tall order, but in social change, upheaval is usually necessary first, and this upheaval would be worth it. Along with raising tariffs, we should destroy every other pernicious element of globalism, such as allowing American firms to offshore assets to reduce their tax burden, and allowing any immigration, legal or illegal, of any unskilled workers at all. And I should note that as with most of what I recommend these days, none of these are really policy recommendations in the traditional sense, because in the present dispensation they will never happen. Rather, they are parts of the new dispensation, when the present one is destroyed, root and branch.

The goal of all this, and much more, is to create a society where the working class is aligned with the ruling class, as opposed to what we have now, where the ruling class makes degraded slaves of what remains of the working class. Foundationalism will have, to be sure, a ruling class, though no member of today's ruling class will be in it. The working class will not be in charge, because the working class is not capable of being in charge. Nonetheless, for us, today, the key is the working class, because their aid in the wars to come will be crucial. To prevent them choosing rightly, our overlords rely on sedating the working classes with consumerism, drugs, porn, and video games. Thus, they have become degraded to a great degree, just like all of us. We can see, though, from Brian Gossett, and from phenomena such as Jordan Peterson, that many young people in the working class don't want those things. The solution is to, at the right moment, weaponize the working class against the ruling class, and against their foot soldiers, the woke professional-managerial elite and the myrmidons of Burn-Loot-Murder, for both of whom the working class, of all races, have nothing but contempt. A new social compact, for a renewed society. Stephen Feinberg can move to Canada or England, or better yet, Mexico, with the one suitcase of possessions he's allowed. Then Lancaster can flourish again.

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The featured image shows, "The Glass Engraver," by Charles Frederic Ulrich, painted in 1883.